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SUBJECT: BOTSWANA ECONOMIC BRIEFS FEBRUARY 2009

11. This is the second edition of U.S. Embassy Gaborone's Botswana Economic Briefs, covering economic and commercial news from February 12009. Topics of this edition are:

- Inflation Drops Again in January 2009
- Diamond Exporters Should Look East?
- Botswana Stock Exchange Falls on Fear of Budget Deficit
- Energy Strategies Mapped Out
- Report: Botswana Budget Transparent
- Diamond Prices May Recover in 2010: DeBeers

Inflation Drops Again in January 2009

12. Botswana's Central Statistical Office announced on February 17 that the inflation rate for January 2009 was 12.8%, down from 13.7% recorded in December 2008. The drop for the second straight month was attributed largely to a 5.6% drop in the Transport Group index. Retail petrol and diesel prices dropped by .50 pula/liter (\$.06/liter) in January and government also reduced bus and taxi fares in late December. Leading local economist Dr. Keith Jefferis believes that Botswana's inflation rate will continue to fall sharply in the next few months and will reach the upper end of the Bank of Botswana's 3-6% inflation target later this year. As inflation continues to fall, some analysts have urged the Bank of Botswana to reduce interest rates in order to boost economic activity and fight recession. The Bank of Botswana is scheduled to announce its 2009 interest rate policy on February 23. (Mmegi, February 18, 2009)

Diamond Exporters Should Look East?

13. According to the Chinese Ambassador to Botswana Mr. Ding Xiaowen, Botswana's troubled diamond industry could find solace in the Chinese market where prices and demand are expected to remain relatively stable. Due to the economic downturn, Botswana's diamond exports are expected to drop by 50 percent and have a severe negative impact on government revenue, which is heavily dependent on diamond sales. Ambassador Ding says that although China has been affected by the global economic crisis, the impact has been minimal compared to other developed countries. As a result, the demand for commodities like diamonds has not dropped as significantly in China as in the western markets. (Mmegi, February 10, 2009)

Botswana Stock Exchange Falls in Fear of Deficit

14. The Botswana Stock Exchange (BSE) was dragged down by the blue chip and mining companies following the Finance Minister's budget speech on February 2. Nervous investors shunned the government's proposed 2009-2010 budget, which calls for deficit spending equivalent to approximately 15% of anticipated GDP. The domestic

board sank by over half a percent (0.58). The Minister of Finance and Development Planning Mr. Baledzi Gaolathe warned that as a result of the P10.56 billion (US\$1.32 billion) national budget, Botswana would incur a deficit of P13.4 billion (US\$1.68 billion). The Minister's budget proposal was also criticized by the consortium of organized business, the Botswana Confederation of Commerce and Industry (BOCCIM). Botswana has accumulated huge foreign exchange reserves, which according to the Government budget speech were worth around P72 billion (US\$9 billion) in November 2008, translating into a 28-month import bill cover. The country's major foreign exchange earner diamonds has been badly hit by the ongoing global credit crunch. The revenue from diamond mining, which contributes over a third of Botswana's GDP, is now expected to drop by as much as 50 percent, while diamond prices are expected to fall by 15 percent during the 2009/2010 fiscal year. (Sunday Standard, February 8-14, 2009).

Energy Strategies Mapped Out

15. The Ministry of Minerals, Energy and Water Affairs in collaboration with the World Bank held a workshop in February 2009 on coal and power regulation strategies as part of an effort to ensure energy security in the Botswana. The World Bank will provide policy advice regarding coal development and associated downstream power sector regulatory reforms in order to ensure that the process stands up to globally accepted practices. After the power crisis that hit Southern Africa in 2007, Botswana has been forced to gradually scale back its electricity imports from South Africa's Eskom, and the import contract will cease in 2012. Botswana's power

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supply is expected to improve substantially upon completion of the Morupule "B" power station expansion in 2012 as well as private sector-led energy projects such as Mmamabula coal fields which are being developed by Canadian CIC Energy. COMMENT: Botswana has large untapped coal resources which, if developed, can be used to sustain the economic and social life of the nation. END COMMENT (The Midweek Sun, February 11, 2009)

Botswana Budget Transparent

16. Botswana and South Africa are the only two African countries that appear on the list of top countries with transparent national budgets. The 2009 International Budget Partnership (IBP) Report indicates that 80 percent of the world's governments are not open about their budgets and they fail to provide adequate information for the public to hold them accountable for managing their money. The IBP Report says Botswana is a country that provides significant information but not extensive information regarding its budget. Countries in the "significant information" category scored 61-80 percent on the survey. Botswana is the only African country in the "significant" group, which includes both developed and developing countries. The producers of the IBP survey say it is a comprehensive analysis and survey that evaluates whether governments give the public access to budget information and opportunities to participate in the budget process. The results are measured against the Open Budget Index (OBI). The Open Budget Index evaluates the quantity and type of information available to the public in a country's budget documents. (Mmegi, February 04, 2009)

Diamond Prices to Recover in 2010?

17. According to DeBeers marketing director Stephen Lussier, rough diamond prices may recover by Christmas 2010. Global demand for rough diamonds is expected to drop by up to 60% in 2009, as the global recession hits demand for luxury goods, especially in the important U.S. market. According to an industry newsletter "Polished Prices," the price of polished diamonds in January 2009 had fallen by 13% since its peak in August 2008. In response, DeBeers plans to significantly reduce diamond production, and the company has already announced plans to lay-off over 1000 workers in South Africa as well as staff in Botswana, Namibia, Canada, and the United Kingdom. COMMENT: DeBeers is reportedly negotiating with

both the Government of Botswana and trade unions to determine how many of its Botswana staff will be retrenched and on what terms.
END COMMENT. (Mmegi, February 18, 2009)

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